

NATIONAL CREDIT UNION SHARE INSURANCE FUND

**Financial Statements for the Years Ended
December 31, 2001 and 2000, and
Independent Auditors' Reports**

NATIONAL CREDIT UNION SHARE INSURANCE FUND

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INDEPENDENT AUDITORS' REPORT

To the Inspector General of the
National Credit Union Administration:

We have audited the accompanying balance sheets of the National Credit Union Share Insurance Fund as of December 31, 2001 and 2000, and the related statements of operations, fund balance and cash flows for the years then ended. These financial statements are the responsibility of the National Credit Union Share Insurance Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Credit Union Share Insurance Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2002, on our tests of the National Credit Union Share Insurance Fund's compliance with certain provisions of laws, regulations, contracts, and grants, and our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

February 22, 2002

NATIONAL CREDIT UNION SHARE INSURANCE FUND

BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

(Dollars in Thousands)

ASSETS	2001	2000
Investments (Note 6)	\$3,648,578	\$3,482,730
Cash and cash equivalents	1,335,753	1,098,005
Accrued interest receivable	67,178	69,261
Assets acquired in assistance to insured credit unions	10,437	9,074
Capital notes advanced to insured credit unions	2,000	146
Notes receivable - National Credit Union		
Administration Operating Fund (Note 8)	30,335	31,748
Other notes receivable and advances	173	112
Fixed assets - net of accumulated depreciation and amortization (Note 3)	<u>1,029</u>	<u>1,796</u>
TOTAL ASSETS	<u>\$5,095,483</u>	<u>\$4,692,872</u>
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Estimated losses from supervised credit unions (Note 4)	\$ 51,023	\$ 55,759
Amounts due to insured shareholders of liquidated credit unions	6,092	7,094
Due to National Credit Union Administration		
Operating Fund (Note 8)	1,723	938
Accounts payable	64	7
Obligations under capital leases (Note 9)	<u>793</u>	<u>1,374</u>
Total liabilities	<u>59,695</u>	<u>65,172</u>
FUND BALANCE:		
Insured credit unions' accumulated contributions	3,812,459	3,468,932
Insurance fund balance	<u>1,223,329</u>	<u>1,158,768</u>
Total fund balance	<u>5,035,788</u>	<u>4,627,700</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$5,095,483</u>	<u>\$4,692,872</u>

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2001 AND 2000 (Dollars in Thousands)

	2001	2000
REVENUES:		
Interest	\$ 252,853	\$ 268,169
Other	<u>1,703</u>	<u>1,952</u>
Total revenues	<u>254,556</u>	<u>270,121</u>
EXPENSES (Note 8):		
Administrative expenses:		
Employee wages and benefits	66,692	47,054
Travel	8,111	6,950
Rent, communications, and utilities	2,457	1,671
Contracted services	3,910	2,744
Other	<u>9,335</u>	<u>7,478</u>
Total expenses	<u>90,505</u>	<u>65,897</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 164,051</u>	<u>\$ 204,224</u>

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF FUND BALANCE YEARS ENDED DECEMBER 31, 2001 AND 2000 (Dollars in Thousands)

	Insured Credit Unions' Accumulated Contributions	Insurance Fund Balance
BALANCE AT JANUARY 1, 2000	\$3,215,634	\$ 954,544
Contributions from insured credit unions	253,298	-
Excess of revenues over expenses	<u>-</u>	<u>204,224</u>
BALANCE AT DECEMBER 31, 2000	3,468,932	1,158,768
Contributions from insured credit unions	343,527	-
Excess of revenues over expenses	-	164,051
Dividends to insured credit unions	<u>-</u>	<u>(99,490)</u>
BALANCE AT DECEMBER 31, 2001	<u><u>\$3,812,459</u></u>	<u><u>\$1,223,329</u></u>

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2001 AND 2000 (Dollars in Thousands)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 164,051	\$ 204,224
Adjustments to reconcile excess of revenues over expenses to cash provided by operating activities:		
Depreciation and amortization	767	507
Reserves (recoveries) relating to losses from supervised credit unions - net	(4,736)	(14,961)
(Increase) decrease in assets:		
Accrued interest receivable	2,083	(30,447)
Assets acquired in assistance to insured credit unions, net	(1,363)	869
Capital notes advanced to insured credit unions, net	(1,854)	179
Other notes receivable and advances	(61)	1,808
(Decrease) increase in liabilities:		
Amounts due to National Credit Union Administration Operating Fund	785	(680)
Amounts due to insured shareholders of liquidated credit unions	(1,002)	(1,840)
Accounts payable	<u>57</u>	<u>(42)</u>
Net cash provided by operating activities	<u>158,727</u>	<u>159,617</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	(165,848)	(995,369)
Collections on note receivable - National Credit Union Administration Operating Fund	1,413	1,413
Purchase of fixed assets	<u>-</u>	<u>(522)</u>
Net cash used in investing activities	<u>(164,435)</u>	<u>(994,478)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions from insured credit unions	343,527	253,298
Dividends to insured credit unions	(99,490)	-
Principal payments under capital lease obligation	<u>(581)</u>	<u>(407)</u>
Net cash provided by financing activities	<u>243,456</u>	<u>252,891</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	237,748	(581,970)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,098,005</u>	<u>1,679,975</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$1,335,753</u></u>	<u><u>\$1,098,005</u></u>

SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING ACTIVITIES:

Capital lease obligations of \$1,781 (thousands) were incurred when the Fund entered into leases for new equipment during the year ended December 31, 2000.

See notes to financial statements.

NATIONAL CREDIT UNION SHARE INSURANCE FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2001 AND 2000

1. ORGANIZATION AND PURPOSE

The National Credit Union Share Insurance Fund (the Fund) was created by the Public Law 91-468 (Title II of the Federal Credit Union Act), which was amended in 1984 by Public Law 98-369. The Fund was established as a revolving fund in the United States Treasury under the management of the National Credit Union Administration (NCUA) Board for the purpose of insuring member share deposits in all federal credit unions and in qualifying state credit unions that request insurance. The maximum amount of insurance is \$100,000 per shareholder account.

NCUA exercises direct supervisory authority over federal credit unions and coordinates required supervisory involvement with the state chartering authority for state-chartered credit unions insured by the Fund. Insured credit unions are required to report certain financial and statistical information to NCUA on a semiannual or quarterly basis depending on the size of the credit union and are subject to periodic examination by NCUA. Information derived through the supervisory and examination process provides the Fund with the ability to identify credit unions experiencing financial difficulties that may require assistance from the Fund.

Credit unions experiencing financial difficulties may be assisted by the Fund in continuing their operations if these difficulties are considered by the Fund to be temporary or correctable. This special assistance may be in the form of a waiver of statutory reserve requirements, a guarantee account, and/or cash assistance. If continuation of the credit union's operations with Fund assistance is not feasible, a merger partner may be sought. If the assistance or merger alternatives are not practical, the credit union is liquidated.

The first form of special assistance is waivers of statutory reserve requirements, whereby the credit union is permitted to cease making additions to its regular reserve and, in more severe cases, to commence charging operating losses against its regular reserve. When all reserves have been depleted by the credit union, the fund may provide a reserve guarantee account in the amount of the reserve deficit. In addition, the Fund may provide cash assistance in the form of share deposits and capital notes, or may purchase assets from the credit union.

Mergers of financially troubled credit unions with stronger credit unions may also require Fund assistance. Merger assistance may be in the form of cash assistance, purchase of certain assets by the Fund, and/or guarantees of the values of certain assets (primarily loans).

When a credit union is no longer able to continue operating and the merger and assistance alternatives are not practical, the Fund will liquidate the credit union, dispose of its assets, and pay members' shares up to the maximum insured amount. The values of certain assets sold (primarily loans) are sometimes guaranteed to third-party purchasers by the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents and Investments - Title II of the Federal Credit Union Act limits the Fund's investments to United States Government securities or securities guaranteed as to both principal and

interest by the United States Government. Cash equivalents are highly liquid investments with original maturities of three months or less. All investments are classified as held-to-maturity under Statement of Financial Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Accordingly, the Fund records investments at amortized cost.

Depreciation and Amortization - Furniture and equipment and capital leases are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the furniture and equipment and the shorter of the estimated useful life or lease term for capital leases. Estimated useful lives are three years for the furniture and equipment and capital leases.

Advances to Insured Credit Unions - The Fund provides cash assistance in the form of interest and non-interest-bearing capital notes (carried at face value), share deposits, and loans to certain credit unions to assist them in continuing their operations.

Assets Acquired from Credit Unions - The Fund acquires the assets of liquidating credit unions pending their ultimate disposition. To assist in the merger of credit unions, the Fund may purchase certain credit union assets. In addition, the Fund may provide cash assistance by acquiring non-performing assets of a credit union experiencing financial difficulty. These acquired assets are maintained by the Asset Management and Assistance Center in Austin, Texas, and are recorded by the Fund at their estimated net realizable value.

Premium Revenue - The Fund may assess each insured credit union a premium charge for insurance in an amount stated as a percentage of insured shares outstanding as of December 31 of the preceding insurance year if the Fund's equity ratio is less than 1.3%. The NCUA Board waived the 2001 and 2000 share insurance premiums (see Note 5).

Income Taxes - The Fund is exempt from Federal income taxes under §501(c)(1) of the Internal Revenue Code.

Fair Value of Financial Instruments - The following methods and assumptions were used in estimating the fair value disclosures for financial instruments:

- a. *Cash and Cash Equivalents* - The carrying amounts for cash and cash equivalents approximate fair values.
- b. *Investments* - The fair value for investments is the quoted market value.
- c. *Capital Notes and Other Notes Receivable* - It is not practicable to estimate the fair value of these assets as there is no secondary market, and the Fund has the ability and the intention to hold these notes to maturity.
- d. *Other* - Accrued interest receivable, notes receivable from NCUA Operating Fund, payable to NCUA Operating Fund, lease obligations, due to insured shareholders of liquidated credit unions and other accounts payable are recorded at book values, which approximate the respective fair values.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, particularly the estimated losses from supervised credit unions, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the

financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Reclassifications - Certain reclassifications have been made to the prior year's financial statements in order to conform to the current presentation.

3. FIXED ASSETS

Fixed assets are comprised of the following (in thousands):

	December 31,	
	2001	2000
Furniture and equipment	\$ 522	\$ 522
Capital leases	<u>1,781</u>	<u>1,781</u>
Total	2,303	2,303
Less: Accumulated depreciation and amortization	<u>(1,274)</u>	<u>(507)</u>
Total fixed assets - net	<u><u>\$ 1,029</u></u>	<u><u>\$ 1,796</u></u>

Accumulated amortization balances for capital leases as of December 31, 2001 and 2000 were \$1,038,000 and \$445,000, respectively.

4. PROVISION FOR INSURANCE LOSSES

Management identifies credit unions experiencing financial difficulty through the Fund's supervisory and examination process. The estimated losses from these supervised credit unions are determined by management on a specified case basis. Management also evaluates overall economic trends and monitors potential system-wide risk factors such as increasing levels of consumer debt, bankruptcies, and delinquencies. Non-specified case reserve requirements are determined based upon an assessment of insured risk and historic loss experience. The anticipated losses are net of estimated recoveries from the disposition of the assets of failed credit unions.

Total insurance in force as of December 31, 2001 and 2000, is \$404 billion and \$355 billion, respectively, which includes natural person and corporate credit unions. The total net reserves for identified and anticipated losses from supervised credit unions' failures is \$51 million and \$56 million at December 31, 2001 and 2000, respectively. Should there be no recoveries provided during the resolution process, possible additional reserves for \$27 and \$27.3 million would be required as of December 31, 2001 and 2000, respectively.

In exercising its supervisory function, the Fund will, at times, extend guarantees of assets (primarily loans) to third-party purchasers or to credit unions to facilitate mergers. Such guarantees totaled approximately \$2,217,000 and \$2,362,000 at December 31, 2001 and 2000, respectively. The estimated losses from asset and merger guarantees are determined by management on a case-by-case evaluation.

In addition, the Fund may grant a guaranteed line-of-credit to a third party credit provider, such as a corporate credit union or bank, if a credit union has a current or immediate liquidity concern and the credit provider has refused to extend credit without a guarantee. Total line-of-credit guarantees of credit unions at December 31, 2001 and 2000, are approximately \$200,000 and \$5,945,000, respectively. The total balances outstanding under these line-of-credit guarantees at December 31, 2001 and 2000, are approximately \$77,000 and \$1,674,000, respectively.

The activity in the reserves for estimated losses from supervised credit unions was as follows (in thousands):

	Year Ended December 31,	
	2001	2000
BEGINNING BALANCE	\$ 55,759	\$ 70,720
Insurance losses	(9,204)	(19,774)
Recoveries	<u>4,468</u>	<u>4,813</u>
ENDING BALANCE	<u>\$ 51,023</u>	<u>\$ 55,759</u>

5. FUND CAPITALIZATION

The Credit Union Membership Access Act of 1998 (CUMAA) mandated changes to the Fund's capitalization provisions effective January 1, 2000. Each insured credit union shall pay to and maintain with the Fund a deposit in an amount equaling 1% of the credit union's insured shares. The amount of each insured credit union's deposit shall be adjusted as follows, in accordance with procedures determined by the NCUA Board, to reflect changes in the credit union's insured shares: (i) annually, in the case of an insured credit union with total assets of not more than \$50,000,000; and (ii) semiannually, in the case of an insured credit union with total assets of \$50,000,000 or more. The annual and semiannual adjustments are based on member share deposits outstanding as of December 31 of the preceding year and June 30 of the current year, respectively. The 1% contribution will be returned to the insured credit union in the event that its insurance coverage is terminated, or is obtained from another source, or the operations of the Fund are transferred from the NCUA Board.

The CUMAA mandates certain premium charges from insured credit unions and distributions from the Fund under certain circumstances. A premium charge to insured credit unions is required if the Fund's equity ratio (as defined in the CUMAA) falls below 1.2% of insured shares. Also, pro rata distributions to insured credit unions after each calendar year are required if, as of year-end:

- (i) Any loans to the Fund from the Federal Government, and any interest on those loans, have been repaid;
- (ii) The Fund's equity ratio exceeds the normal operating level (as defined in the CUMAA, an equity ratio specified by the NCUA Board, which shall be not less than 1.2% and not more than 1.5%); and
- (iii) The Fund's available assets ratio, as defined in the CUMAA, exceeds 1.0%.

The NCUA Board has determined that the normal operating level is 1.30% at December 31, 2001 and 2000. The calculated equity ratio at December 31, 2001 was 1.25%. The equity ratio at December 31, 2000, was 1.33%, which considered an estimated \$31.9 million in deposit adjustments billed to insured credit unions in 2001 based upon total insured shares as of December 31, 2000. Subsequently, such deposits adjustments were excluded and the calculated equity ratio at December 31, 2000 was revised to 1.30%.

Beginning in 2000, the CUMAA mandates that dividends are determined from specific ratios, which are based upon year-end reports of insured shares. Accordingly, dividends associated with insured shares at year-end are declared and paid in the subsequent year.

The NCUA Board declared that no dividends were payable on insured shares as of December 31, 2001, because the equity ratio, 1.25%, was below the normal operating level, 1.30%. Dividends of \$99,490,000, which were associated with insured shares as of December 31, 2000, were declared and paid in 2001. Total insured shares as of December 31, 2001 and 2000, were \$404 billion and \$355 billion, respectively.

6. INVESTMENTS

All cash received by the Fund that is not used for outlays related to assistance to insured credit unions and liquidation activities is invested in U.S. Treasury securities.

Investments consist of the following (in thousands):

December 31, 2001					
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	5.56 %	\$1,515,063	\$ 30,843	\$ -	\$1,545,906
Maturities after one year through five years	5.10 %	<u>2,133,515</u>	<u>73,017</u>	<u>-</u>	<u>2,206,532</u>
Total		<u>\$3,648,578</u>	<u>\$103,860</u>	<u>\$ -</u>	<u>\$3,752,438</u>
December 31, 2000					
	Yield to Maturity at Market	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. TREASURY SECURITIES:					
Maturities up to one year	6.28 %	\$1,098,748	\$ 3,565	\$ -	\$1,102,313
Maturities after one year through five years	6.07 %	<u>2,383,982</u>	<u>36,393</u>	<u>-</u>	<u>2,420,375</u>
Total		<u>\$3,482,730</u>	<u>\$ 39,958</u>	<u>\$ -</u>	<u>\$3,522,688</u>

Total investment purchases during 2001 and 2000 were approximately \$1.2 billion and \$1.9 billion, respectively. Investment maturities during 2001 and 2000 were approximately \$1.1 billion and \$0.9 billion, respectively. The Fund has the capability and management has the intention to hold all investments held at December 31, 2001 and 2000, to maturity. There were no investment sales during 2001 and 2000.

7. AVAILABLE BORROWINGS

The Fund is authorized by the Federal Credit Union Act to borrow from the Treasury of the United States, upon authorization by the NCUA Board, up to a maximum of \$100,000,000. The CLF is authorized to make advances to the Fund under terms and conditions established by the NCUA Board. No borrowings were obtained from these sources during 2001 and 2000.

8. TRANSACTIONS WITH NCUA OPERATING FUND

Substantial administrative services are provided to the Fund by the NCUA Operating Fund. The NCUA Operating Fund charges the Fund for these services based on an annual allocation factor approved by the NCUA Board derived from a study of actual usage conducted by the management of these Funds. The allocation factors were 66.72% and 50% to the Fund for 2001 and 2000, respectively. The cost of services provided by the NCUA Operating Fund was approximately \$88,508,000 and \$63,780,000 for 2001 and 2000, respectively, and includes pension contributions of approximately \$6,879,000 and \$4,730,000 to the Civil Service Retirement System and Federal Employees Retirement System defined benefit retirement plans for 2001 and 2000, respectively.

In 1988, the Fund entered into a \$2,161,000 thirty-year unsecured term note with the NCUA Operating Fund. Interest received was approximately \$66,000 for 2001 and \$76,000 for 2000. The note receivable balance at December 31, 2001 and 2000, was approximately \$1,170,000 and \$1,242,000, respectively.

In 1992, the Fund entered into a commitment to fund up to \$41,975,000 through a thirty-year secured term note with the NCUA Operating Fund. The monies were advanced to the NCUA Operating Fund as needed to fund the costs of constructing a new building. Interest income was approximately \$1,629,000 and \$1,857,000 for 2001 and 2000, respectively. The note receivable balance at December 31, 2001 and 2000, was approximately \$29,165,000 and \$30,506,000, respectively.

The above notes mature as follows (in thousands):

	Term Note	Term Note	Total
2002	\$ 72	\$ 1,341	\$ 1,413
2003	72	1,341	1,413
2004	72	1,341	1,413
2005	72	1,341	1,413
2006	72	1,341	1,413
Thereafter	<u>810</u>	<u>22,460</u>	<u>23,270</u>
Total	<u>\$ 1,170</u>	<u>\$ 29,165</u>	<u>\$ 30,335</u>

The variable rate on both term notes is equal to the Fund's prior-month yield on investments. The average interest rates during 2001 and 2000 were approximately 5.47% and 5.95%, respectively. At December 31, 2001 and 2000, the rates were 4.56% and 6.05%, respectively.

The NCUA Operating Fund leases certain office space and equipment under operating lease agreements that expire through 2004. Based on the allocation factor determined as determined by the NCUA's Board, the Fund reimburses the NCUA Operating Fund approximately 66.72% of the total lease payments. The cost of services provided by the NCUA Operating Fund includes rental charges of approximately \$654,500 and \$406,500 for 2001 and 2000, respectively.

The NCUA Operating Fund's total future minimum lease payments on operating leases as of December 31, 2001, are as follows (in thousands):

2002	\$ 972
2003	439
2004	<u>326</u>
Total	<u>\$ 1,737</u>

9. LEASE COMMITMENTS

Description of Leasing Agreements - The Fund has entered into lease agreements with vendors for the lease of equipment that includes computers, laptops, and printers.

Capital Leases - The Fund leases computer equipment under lease agreements that expire through 2003.

The following is a schedule of future minimum lease payments as of December 31, 2001, are as follows (in thousands):

2002	\$ 659
2003	<u>164</u>
Total	823
Less: Imputed interest	<u>(30)</u>
Present value of net minimum lease payments	<u>\$ 793</u>

10. DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Fund's financial instruments are as follows:

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments	\$3,648,578	\$3,752,438	\$3,482,730	\$3,522,688
Cash and cash equivalents	1,335,753	1,335,753	1,098,005	1,098,005
Accrued interest receivable	67,178	67,178	69,261	69,261
Notes receivable - NCUA Operating Fund	30,335	30,335	31,748	31,748
Amounts due to insured shareholders of liquidated credit unions	6,092	6,092	7,094	7,094
Due to NCUA Operating Fund	1,723	1,723	938	938
Accounts payable	64	64	7	7
Lease obligation	793	793	1,374	1,374

11. CONCENTRATIONS

There are no significant concentrations of member share deposits within any region of the United States. Concentrations of member shares do exist within the manufacturing, governmental, and educational industries.

12. CONTINGENCIES

NCUA is currently party to a number of other disputes that involve or may involve litigation. In the opinion of management, the ultimate liability with respect to these disputes, if any, will not be material to NCUA's financial position.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Inspector General of the
National Credit Union Administration:

We have audited the financial statements of the National Credit Union Share Insurance Fund (the Fund) as of and for the year ended December 31, 2001, and have issued our report thereon dated February 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we will report to the management of the Fund in a separate letter dated February 22, 2002.

This report is intended solely for the information and use of the Inspector General, and the Board of the National Credit Union Administration, and the management of the National Credit Union Share Insurance Fund and is not intended to be and should not be used by anyone other than these specified parties.

February 22, 2002